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c. These sector indexes are combined into an aggregate figure by the use of value-added weights for each sector. The value-added weight for a sector consists of the sum of wages and salaries, depreciation, and profits in the sector. This is a standard computational technique, used for example, by the Federal Reserve Board in constructing its industrial production index.

4. Of key importance is the weight assigned to each sector of origin. The two largest sectors are agriculture and industry, the output of each of which contributes about one-third of the total index. To show what happened in 1963 to reduce Soviet growth to approximately two and one-half percent, the following equally weighted (that is, one-third of the total each) simplified illustration is given:

	<u>Percent Change</u>
Agriculture	-4
Industry	+7
All other sectors	+4
Total growth	<u>2.4</u>

5. While there are many thousands of individual computations in any calculation of a nation's gross national product, the key to the total growth figure for the USSR in 1963 is as stated at the end of the New York Times article of 9 January,

"Several of the economists agreed that the key variable in judging the estimate of the Central Intelligence Agency was the level of agricultural output assumed in making the calculation."

6. It is generally accepted by all U.S. specialists concerned with the Soviet economy that official output measures for certain agricultural commodities are inflated and require significant downward adjustments. OIR's index of agricultural output incorporating these independent commodity estimates was published in the compendium of papers issued by the Joint Economic Committee in 1962. Estimates of physical production through 1961 of major crops and livestock products were included in this unclassified paper. We have received only favorable comments on this paper, available to academicians for over a year.

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7. For your information, we are enclosing a copy of a recent unclassified publication, Index of Civilian Industrial Production in the USSR, 1950-61, which has been distributed to a number of academic scholars. This publication and its lengthy supplement give the detail of the computations we use on industrial production, except for the more highly classified military products. This study has been in academic hands for several months.

/s/

[Redacted]  
Acting Assistant Director  
Research and Reports

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